0-3233

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

S2078313

0-3632

FORM 10-Q

MAR 11 1992

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 26, 1992

92-2274

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-19703

Farrel Corporation

(Exact name of registrant as specified in its charter)

Delaware	22-2689245
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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25 Main Street, Ansonia, Connecticut 06401
(Address of principal executive offices) (Zip Code)

(203) 736-5500
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT MARCH 10, 1992
Common Stock (Voting), $.01 par value	6,142,106

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly in accordance with generally accepted accounting principles, the consolidated financial position of Farrel Corporation as of January 26, 1992, the consolidated results of its operations for the three months and the nine months ended January 26, 1992 and January 27, 1991, and its consolidated cash flows for the nine month periods ended January 26, 1992 and January 27, 1991. These results are not necessarily indicative of results to be expected for the full fiscal year.

FARREL CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS OF DOLLARS)

ASSETS	January 26, 1992 (unaudited)	April 30, 1991
Current Assets:		
Cash and cash equivalents	$ 1,621	$ 3,551
Stock proceeds receivable	17,670	-
Accounts receivable, net of allowance	19,949	16,753
Inventory (note 1)	14,977	19,600
Loans to stockholder	1,500	1,500
Other current assets	1,454	1,934
Total current assets	$ 57,171	$ 43,338
Property, plant and equipment - net of accumulated depreciation	7,909	6,559
	$ 65,080	$ 49,897
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 11,847	$ 14,960
Accrued expenses & taxes	4,525	4,720
Short term debt	7,080	-
Advances from customers	7,960	11,089
Accrued installation & warranty costs	4,115	4,440
Total current liabilities	35,527	35,209
Long Term debt	896	865
Deferred income taxes	1,233	1,055
Stockholders' equity:		
Preferred stock, par value $100, 1,000,000 shares authorized, no shares issued	-	-
Common stock, par value $.01, 10,000,000 shares authorized, 6,000,000 shares outstanding at January 26, 1992, 5,483,870 shares outstanding at April 30, 1991	60	55
Paid in capital	16,539	945
Cumulative translation adjustment	455	217
Retained earnings	10,370	11,551
Total Stockholders' Equity	27,424	12,768
	$ 65,080	$ 49,897

See Accompanying Notes to Consolidated Financial Statements

FARREL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of dollars except per share data)

	Three Months Ended		Nine Months Ended	
	January 26, 1992	January 27, 1991	January 26, 1992	January 27, 1991
	(unaudited)		(unaudited)	
Net sales	$ 24,067	$ 23,236	$ 70,614	$ 77,563
Cost of sales	17,215	17,736	50,713	59,308
Gross margin	6,852	5,500	19,901	18,255
Operating expenses:				
Selling	1,885	2,285	5,679	6,024
General & administrative	2,892	2,910	8,114	7,797
Research & development	577	591	1,673	1,517
Total operating expenses	5,354	5,786	15,465	15,338
Operating income/(loss)	1,498	(286)	4,436	2,917
Other income/(expense):				
Other expense, net of other income	(79)	(267)	(71)	(426)
Interest income	55	49	249	349
Interest expense	(73)	(36)	(485)	(165)
Income/(loss) before provision for income taxes	1,401	(548)	4,129	2,666
Provision for income taxes/(benefits)	506	(247)	1,550	883
Net income / (loss)	$ 895	$ (301)	$ 2,579	$ 1,783
Per share data:				
Net income/ (Loss) per share	$.170	$(.055)	$.477	$.325
Weighted average number of shares outstanding	5,263,382	5,483,870	5,409,832	5,483,870
Dividends	-	-	-	-

See accompanying Notes to Consolidated Financial Statements

FARREL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of dollars)

	Nine Months Ended	
	January 26, 1992	January 27, 1991
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 2,579	$ 1,783
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on disposal of fixed assets	(76)	-
Depreciation and amortization	860	594
(Increase) decrease in accounts receivable	(2,665)	153
Decrease in inventory	4,771	4,472
Decrease in accounts payable	(4,197)	(2,792)
Decrease in customer advances	(3,287)	(4,198)
(Increase) decrease in prepaid income taxes	1,069	(653)
Increase (decrease) in accrued expenses & taxes	(249)	932
Decrease in accrued installation and warranty costs	(409)	(205)
Increase in deferred income taxes	171	341
Other	(797)	578
Total adjustments	(4,809)	(778)
Net cash provided by (used in) operating activities	(2,230)	1,005
Cash flows from investing activities:		
Proceeds from disposal of fixed assets	82	-
Purchases of property, plant and equipment	(2,070)	(2,860)
Net cash used in investing activities	(1,988)	(2,860)
Cash flows from financing activities:		
Net proceeds from bank loans	7,080	1,129
Repurchase of common stock	(3,900)	-
Initial public offering expenses paid to date	(958)	-
Net cash provided by financing activities	2,222	1,129
Effect of exchange rate changes on cash	66	158
Net decrease in cash and cash equivalents	(1,930)	(568)
Cash and cash equivalents - Beginning of period	3,551	1,845
Cash and cash equivalents - End of period	$ 1,621	$ 1,277

See accompanying Notes to Consolidated Financial Statements

Supplemental Information:

1. On January 17, 1992, the Company issued 2,000,000 shares of common stock in an initial public offering. After deducting underwriting fees of $1,330,000, the net proceeds receivable of $17,670,000 are included in current assets. Corresponding credits of $20,000 and $17,650,000 have been recorded to the common stock and paid in capital accounts, respectively.

2. As per Note 2(b), the Company repurchased common stock at a cost of $4,131,000 of which $3,900,000 has been paid. The remaining $231,000 is reflected in accounts payable.

3. Initial public offering expenses are estimated to be $1,700,000 and, accordingly, paid in capital has been reduced by that amount on the balance sheet. As of January 26, 1992, $958,000 has been paid. The remaining $742,000 is reflected in accounts payable.

See Accompanying Notes To Consolidated Financial Statements.

FARREL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - Inventory

Inventory is comprised of the following:

	January 26, 1992	April 30, 1991
	(In thousands)	
Stock and raw materials	$11,389	$ 9,424
Work-in process	3,588	10,176
Finished goods	-	-
Total	$ 14,977	$19,600

Note 2 - Stockholders' Equity

(a) Stock Option and Stock Purchase Plans:

On January 12, 1992, the Board of Directors of the Company approved the establishment of the 1992 Stock Option Plan and the 1992 Employees' Stock Purchase Plan.

The stock option plan authorizes the granting of incentive stock options and non-qualified stock options to purchase up to 600,000 shares of common stock. Option awards may be granted to eligible employees and non-employee directors. The exercise price of the options may not be less than fair market value as of the date of grant (or 110% in the case of an incentive stock option granted to a 10% stockholder). Options granted would become exercisable by employees in cumulative installments over a four year period of employment after the date of grant. Each non-employee director would be granted each year a non-qualified stock option to purchase 3,000 shares. The non-employee directors were granted such option for 1992. The President of the Company was granted non-qualified stock options to purchase 40,000 shares at the closing of the initial public offering. In addition, the President of the Company will be granted options to purchase 40,000 shares per year in 1992, 1993 and 1994.

The stock purchase plan gives each employee of the Company the right to purchase, in each of the years 1992 through 1996, shares of common stock equivalent in value to not more than 5% of the employee's annual compensation, up to a maximum of $25,000 per year. The purchase price will be the lower of 85% of the fair market value of the common stock on the date the right is granted or 85% of the fair market value on the date the applicable purchase period ends. Not more than an aggregate of 500,000 shares of common stock may be purchased under the stock purchase plan. Any employee who, after the purchase, would hold 5% or more of the common stock would be ineligible.

(b) Common Stock Transactions:

On December 31, 1991, the Company purchased 1,483,870 shares of its common stock from certain stockholders pursuant to a purchase option. The aggregate cost to the Company was $4,131,000, including fees, which was charged to common stock, paid in capital, and retained earnings in the amounts of $15,000, $356,000, and $3,760,000, respectively. These shares were retired.

On January 17, 1992, the Company issued two million shares of common stock in an initial public offering at a price of $9.50 per share. After deducting the underwriting fees of $1,330,000, the net proceeds to the company were $17,670,000. The proceeds of the issuance were received from the underwriters on January 27, 1992. In addition, estimated offering expenses of $1,700,000 were paid or accrued.

Subsequent to the end of the current fiscal quarter, on January 29, 1992, the Company issued an additional 300,000 shares of common stock in connection with the initial public offering upon the exercise by the underwriters of an option to purchase the additional shares. The net proceeds to the Company were $2,650,500. Also, on January 27, 1992, the Company purchased, and retired, 157,894 shares of its common stock from its President and majority stockholder at the $9.50 public offering price by canceling the President's indebtness to the Company in the amount of $1,500,000. These transactions will be recorded in the fourth fiscal quarter.

Note 3 - Short Term Debt

The short term debt of $7,080,000 at January 26, 1992, represents amounts borrowed in December, 1991 and January, 1992 to fund the acquisition of common stock described in Note 2 (b) and for temporary working capital needs. The short term debt was repaid on January 28, 1992.

Note 4 - Net Income/(Loss) Per Share

Net income/(loss) per share is computed by dividing the net income for the applicable period by the weighted averaged number of shares of common stock outstanding during the period. All share and per share amounts in the accompanying financial statements have been adjusted to give retroactive effect to a 645.16129 to 1 stock split on October 24, 1991 when the Company amended its certificate of incorporation to increase the number of authorized shares of common stock from 10,000 to 10,000,000.

Note 5 - Dividends

Subsequent to January 26, 1992, the Board of Directors on March 3, 1992 declared a dividend of $.04 per share. Dividends are payable on March 31, 1992 to stockholders of record on March 17, 1992.

Note 6 - FAS No. 106

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FAS No. 106"). FAS No. 106 will significantly change the prevailing practice of accounting for postretirement benefits on a cash basis by requiring accrual of the expected costs of these benefits during the years that the employees render services. The Company is required to adopt the new accounting and disclosure rules no later than its 1994 fiscal year, although earlier adoption is permitted. The Company may adopt the new standard prospectively or via a catch-up adjustment. The Company has not yet determined when it will adopt FAS No. 106, nor has the Company completed the analysis required to estimate the impact of the new standard.

Note 7 - Contingencies

In July 1991, the Company was named as one of three third-party defendants in an action brought by Temple Associates, Inc. against John Brown Engineering & Construction, Inc. and Mobil Oil Corporation, which action was pending in the U.S. District Court for the Eastern District of Texas, Beaumont Division. On February 28, 1992, this case was dismissed.

At the time the Company purchased the assets of Farrel Company, the Company specifically did not assume or agree to be responsible for claims asserted with respect to machinery that was manufactured and shipped prior to the date of the acquisition. The Company, or its predecessors, has been named as a defendant in 25 personal injury matters alleging that machinery manufactured and shipped prior to the Company's acquisition of assets from USM was defective. The aggregate amount of damages sought by the plaintiffs in these actions is not determinable at this time. USM has assumed the defense of each of these suits on behalf of the Company. While the Company does not believe that it will incur any material liability in these actions, no assurance can be given that the Company will not have any successor liability in any of these actions or that the aggregate amount of liability assessed against the Company, if any, will not be material. In the event of any such liability, the Company would seek to recover any losses in connection therewith from USM, although no assurance can be given that the Company would be successful.

For a discussion of other contingencies, see Notes 9(b) and 9(c) to the Consolidated Financial Statements of the Registrant as of April 30, 1991 filed as part of Registration Statement No. 33-043539.

PART I - ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

Results of Operations

The following table sets forth the statement of operations items as a percentage of net sales for each of the fiscal periods shown:

FARREL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(as a percent of net sales)

	Three Months Ended		Nine Months Ended	
	January 26, 1992	January 27, 1991	January 26, 1992	January 27, 1991
	(unaudited)		(unaudited)	
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	71.6	76.3	71.8	76.5
Gross margin	28.4	23.7	28.2	23.5
Operating expenses:				
Selling	7.8	9.8	8.0	7.7
General & administrative	12.0	12.6	11.5	10.1
Research & development	2.4	2.5	2.4	2.0
Total operating expenses	22.2	24.9	21.9	19.8
Operating income/(loss)	6.2	(1.2)	6.3	3.7
Other income/(expense):				
Other expense, net of other income	(0.3)	(1.2)	(0.1)	(0.5)
Interest income	0.2	0.2	0.4	0.4
Interest expense	(0.3)	(0.2)	(0.7)	(0.2)
Income/(loss) before provision for income taxes	5.8	(2.4)	5.9	3.4
Provision for income taxes/(benefits)	2.1	(1.1)	2.2	1.1
Net income / (loss)	3.7%	(1.3%)	3.7%	2.3%

Nine Months Ended January 26, 1992 Compared to Nine Months Ended January 27, 1991

Net sales for the first nine months of fiscal 1992 were $70.6 million, $7.0 million below $77.6 million reported for the same period of fiscal 1991. This variance includes a negative foreign currency conversion effect of $1.2 million. Sales of new machinery and process engineering services of $43.5 million for the first nine months of fiscal 1992 were $4.8 million lower than the comparable period of the prior year, due primarily to lower overseas sales levels resulting from the continuing worldwide recession, and political and economic unrest in Eastern Europe, the Middle East and China. The Company believes that the worldwide recession has caused its customers to experience a general decline in the demand for their products, and has resulted in postponement of expenditures by such customers for new equipment and a corresponding decline in sales of the Company's products. The Company has closely monitored operating costs and hiring levels to bring them in line with such lower sales levels. Aftermarket sales were $27.1 million for the first nine months of fiscal 1992, or $2.2 million lower than the comparable period of the prior year.

The Company's ability to increase net sales levels will depend upon a recovery in the Company's primary markets and a corresponding increase in order activity. During the first nine months of fiscal 1992, orders decreased to $60.6 million from $63.2 million during the comparable period in fiscal 1991. In fact, the dollar volume of sales orders increased by $3.5 million during the nine months ended January 26, 1992 but were more than offset by the effects of a negative $6.1 million foreign currency conversion on the consolidated backlog. The volume increase was primarily attributable to an increase in orders from the Company's customers in the plastics industry, particularly in the value-added mixing segment of the market. There can be no assurance that this increase in order activity is indicative of a recovery in the Company's primary markets or that orders and backlog will increase in the future or that they will not again decline.

Backlog at the end of the nine-month period ended January 26, 1992 was $44.2 million, compared to $58.0 million at January 27, 1991. The decline in backlog is due in part to the general economic slowdown in the United States and Western Europe, which caused certain of the Company's customers to reduce or postpone planned capacity additions, and political and economic unrest in Eastern Europe, the Middle East and China which caused certain of the Company's customers in those regions to postpone capital spending programs. The backlog as of March 6, 1992, was $48.5 million, or $4.3 million higher than the quarter ending results.

The Company has shortened the lead time required to deliver certain new equipment from over one year to approximately six months, resulting in individual equipment orders generally spending less time in backlog. The Company has also increased the portion of its revenues derived from aftermarket sales, which have significantly faster turnaround times than new equipment sales. The effect of these two trends, assuming a level volume of net sales, is to reduce average backlog. Assuming no significant worsening of political and economic conditions, the Company believes that the decline in backlog in recent years to the current level will not have a material adverse effect on the Company.

Gross margin increased to $19.9 million in the first nine months of fiscal 1992 from $18.3 million in the first nine months of fiscal 1991 and gross margin as a percentage of net sales increased to 28.2% from 23.5%. The increase in gross margin was primarily due to significantly higher margins on new equipment sales, more efficient purchasing practices, reduced engineering overhead, reduced provisions for excess and obsolete inventory and the favorable settlements of an insurance claim and a contract dispute. These gains were offset in part by higher warranty and installation expenses as well as the negative effect of foreign currency conversions.

Selling expenses decreased $346,000 primarily due to lower overall selling expenses, partly offset by added costs associated with increased participation in trade shows.

General and administrative expenses increased $317,000 in the first nine months of fiscal 1992 compared to the first nine months of fiscal 1991. In an effort to decrease warranty and installation expenses, the Company has put into place a total quality improvement program. These expenses and higher overall administrative salaries and related fringe benefit expenses accounted for a large part of the increase. Due to the fixed nature of these expenses and lower sales levels, general and administrative expenses as a percentage of net sales increased from 10.1% in the first nine months of fiscal 1991 to 11.5% in the first nine months of fiscal 1992. Research and development expense increased $156,000 reflecting the Company's ongoing development efforts.

Other expense, exclusive of interest income and interest expense, decreased by $355,000 in the first nine months of fiscal 1992 compared to the comparable prior year period due to reductions in foreign exchange losses and miscellaneous other expenses.

Interest expense increased by $320,000 to $485,000 in the first nine months of fiscal 1992 compared to the first nine months of fiscal 1991. The increase was due primarily to interest charges associated with the sale of certain receivables under the terms of a temporary credit facility with a major U.K. bank.

Income tax expense as a percentage of pre-tax income increased to 37.5% in the first nine months of fiscal 1992 from 33.1% in the first nine months of fiscal 1991.

Three Months Ended January 26, 1992 Compared To Three Months Ended January 27, 1991

Net sales for the quarter ended January 26, 1992 were $24.1 million or $.9 million higher than the $23.2 million reported for the same period in fiscal 1991. Sales of new machines and process engineering services of $14.9 million were $1.5 million higher than the same three month period in the prior year, primarily the result of a major order involving a significant amount of process engineering services. Aftermarket sales were $.6 million lower than the comparable prior year period.

Orders received by the Company during the quarter ended January 26, 1992 were $15.3 million, down $8.6 million from the same quarter in the previous year, primarily the result of two major machine orders related to plant/production expansions, valued at $6.4 million, which were received in the third quarter 1991. Although the Company continues to receive large orders related to plant/production expansions, it is difficult to predict the timing of the actual bookings. This can result in significant quarterly variances, especially when two or more of these orders are received in the same quarter. In addition to the impact of these two machine orders, bookings decreased due to the worldwide recession and political unrest in Eastern Europe, the Middle East, and China.

Gross margin of $6.9 million is $1.4 million greater than the previous year's comparable quarterly margin, and gross margin as a percentage of sales was 28.4%, or 4.7% higher. This increase is the result of higher net sales and improved new equipment margins, plus lower overseas sales commissions and engineering expense. Improved inventory procedures resulted in reduced provisions for excess and obsolete inventory. Gross margin also improved due to the favorable settlement of an insurance claim.

Selling expenses of $1.9 million are $.4 million lower than last year's third quarter and the percentage of sales of 7.8% is 2% lower than the comparable prior year period. This is the result of lower overall selling expenses and an adjustment made in the third quarter 1991 to reclassify certain cost of sales accounts to properly reflect the cumulative nine month results.

Other expense, net of other income of $79,000, is $188,000 less than the comparable prior year quarter due primarily to reductions in foreign exchange losses and a loss on the sale of a fixed asset in the prior year's quarter.

Income tax expense as a percentage of pretax income was 36.1% compared to a tax benefit in the previous year's third quarter of 45.1% resulting from the effects of a consolidated loss and differing local tax rates.

Liquidity and Capital Resources; Capital Expenditures

Working capital at January 26, 1992 was $21.6 million, or $13.5 million higher than at April 30, 1991. The primary reason for the increase in working capital was due to the Company's initial public stock offering. The ratio of current assets to current liabilities was 1.6 to 1 at January 26, 1992 and 1.2 to 1 on April 30, 1991.

Due to the nature of the Company's business, many sales are of a large dollar amount. Consequently, accounts receivable and/or inventory may be temporarily at high levels which may result in a temporary decline in cash provided from operating activities. Historically, the Company has not experienced significant problems regarding the collection of accounts receivable. The Company has historically financed its activities with cash generated by operations and with borrowings under its bank credit facilities. The Company currently has individual credit facilities in the U.S. and the U.K.. The principal reason the Company incurs indebtedness under these facilities is to fund working capital requirements.

The Company's credit agreement in the U.S. is with a major U.S. bank under which it is authorized to borrow up to the lesser of $10 million or an amount equal to the sum of stipulated percentages of eligible real property, receivables and inventory. This credit facility may also be utilized for letters of credit and acceptances. Outstanding amounts are secured by a pledge of substantially all of the U.S. assets of the Company, including mortgages on real property. The agreement contains certain restrictions on the making of investments, loans and capital expenditures, on borrowings, and on the sales of assets. It limits the payment of dividends to 50% of the Company's cumulative consolidated net income during the eight fiscal quarters preceding the date of the dividend or since May 1, 1991, whichever period is shorter (after deducting distributions previously made during the period). The agreement requires the maintenance of minimum levels of net worth, as defined, and maximum ratios of total liabilities, as defined, to net worth, as well as the maintenance of stipulated levels of operating profit and backlog. Interest is payable monthly and accrues on the outstanding loan balance at the bank's prime rate plus one percent. The agreement terminates on December 31, 1992.

The credit agreement was amended as of November 27, 1991, to increase the amount available thereunder by an additional $5 million for the sole purpose of making available to the Company a sufficient amount of funds to purchase 1,483,870 shares of common stock from certain stockholders. The increased commitment expired on February 28, 1992. On January 14, 1992, $3.8 million was borrowed for this purpose and the Company subsequently repaid the borrowings thereunder on January 28, 1992.

In addition to the aforementioned borrowings of $3.8 million, another $3.3 million was outstanding under the credit agreement at January 26, 1992, for an aggregate total of $7.1 million. This $3.3 million was also repaid on January 28, 1992. At January 26, 1992, letters of credit outstanding amounted to $1.3 million.

The Company's credit facility in the U.K. is with a major U.K. bank and is for a total of 7.3 million pounds sterling (or $13.1 million at January 26, 1992) under which it may borrow up to 2.5 million pounds sterling (or $4.5 million at January 26, 1992) for working capital requirements. The balance of the facility is available in the form of bank guarantees. Interest is charged at the bank's base rate plus 1 ¼ percent. The facility is secured by the fixed assets and receivables of the Company's U.K. subsidiary. At January 26, 1992 there were no loans outstanding under this arrangement. Letters of credit amounted to 3.3 million pounds sterling (or $5.9 million at January 26, 1992). The agreement terminates on April 23, 1992.

The Company has a long-term loan in the amount of 500,000 pounds sterling (or $896,000 at January 26, 1992), from the same U.K. bank, which matures in January 1999 with semiannual principal payments commencing in 1995. The proceeds were used to refurbish the Company's U.K. facilities. The interest on this loan is 10% per annum except that, for the first five years of the term, certain rebates of interest may be granted by the bank under certain circumstances.

The Company anticipates that it's operating cash flows, available lines of credit and the net proceeds of the stock offering will be adequate to fund its anticipated capital commitments and working capital requirements for at least the next twelve months.

Through the nine months ended January 26, 1992 the Company had capital expenditures of $2,070,000, down $790,000 from accumulated capital spending at January 27, 1991.

Subsequent to January 26, 1992, the Board of Directors on March 3, 1992 declared a dividend of $.04 per share. Dividends are payable on March 31, 1992 to stockholders of record on March 17, 1992.

Contingencies:

In July 1991, the Company was named as one of three third-party defendants in an action brought by Temple Associates, Inc. against John Brown Engineering & Construction, Inc. and Mobil Oil Corporation, which action was pending in the U.S. District Court for the Eastern District of Texas, Beaumont Division. On February 28, 1992, this case was dismissed.

At the time the Company purchased the assets of Farrel Company, the Company specifically did not assume or agree to be responsible for claims asserted with respect to machinery that was manufactured and shipped prior to the date of the acquisition. The Company, or its predecessors, has been named as a defendant in 25 personal injury matters alleging that machinery manufactured and shipped prior to the Company's acquisition of assets from USM was defective. The aggregate amount of damages sought by the plaintiffs in these actions is not determinable at this time. USM has assumed the defense of each of these suits on behalf of the Company. While the Company does not believe that it will incur any material liability in these actions, no assurance can be given that the Company will not have any successor liability in any of these actions or that the aggregate amount of liability assessed against the Company, if any, will not be material. In the event of any such liability, the Company would seek to recover any losses in connection therewith from USM, although no assurance can be given that the Company would be successful.

For a discussion of other contingencies, see Notes 9(b) and 9(c) to the Consolidated Financial Statements of the Registrant as of April 30, 1991 filed as part of Registration Statement No. 33-043539.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS - See Notes to Consolidated Financial Statements - Note 7

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On January 12, 1992, five stockholders unanimously approved via written consent, the Farrel Corporation 1992 Employees' Stock Purchase Plan, which grants the right to purchase shares of common stock of the Company, subject to the discretion of the Board of Directors. Under the Plan, on the annual offering date in May, 1992, and in May of the next succeeding four years, each employee of the Company would be eligible to purchase that number of shares of common stock having a purchase price equal to not more than five (5%) percent of the employee's annual compensation, subject to the maximum number of shares authorized by the Board of Directors for such annual grant period.

On January 12, 1992, five stockholders unanimously approved via written consent, the Farrel Corporation 1992 Stock Option Plan for key employees and non-employee directors. The Stock Option Plan was designed to promote the interest of the Company and its stockholders by providing eligible employees and non-employee directors with incentives so that the Company is able to attract and retain qualified personnel and directors. Under the Stock Option Plan, awards of incentive stock options (as defined in Section 422 of the Internal Revenue Code of 1986, as amended) and non-qualified stock options may be granted to eligible employees.

ITEM 6 - EXHIBITS

Exhibit 1.1 - Notes 9(b) and 9(c) to Registrant's Consolidated Financial Statements as of April 30, 1991 filed as part of Registration Statement No. 33-043539.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED

FARREL CORPORATION
REGISTRANT

DATE: 3/6/92

ROLF K. LIEBERGESELL
CHIEF EXECUTIVE OFFICER
PRESIDENT AND CHAIRMAN OF THE BOARD

DATE: 3/6/92

JOSEPH M. MILANO
VICE PRESIDENT - FINANCE
TREASURER AND CHIEF FINANCIAL OFFICER

FARREL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the years ended April 30, 1989, 1990 and 1991
(Information as of October 27, 1991 and for the six-month periods ended October 28, 1990 and October 27, 1991 is unaudited)

Note 9—Commitments and Contingencies

(b) *Contingencies—Environmental:*

In 1988, the Company and approximately 196 other entities were named as third party defendants in United States District Court under the federal Superfund recovery statutes. The primary defendants are seeking to recover monies expended or expected to be expended for the control and clean-up of two landfills located in Connecticut. The matters are expected to terminate in the Company's favor and the Company believes it is unlikely that it will incur any material liability in respect of these landfills.

In 1986, in connection with the Acquisition, the Company and USM entered into an Environmental Indemnification Agreement dated as of May 12, 1986 (the "Environmental Indemnification Agreement"). The Environmental Indemnification Agreement contains a provision pursuant to which USM agreed to indemnify the Company for losses resulting from environmental claims, up to an aggregate of $5 million, arising out of or based upon the acts or omissions of USM and its predecessors prior to the Acquisition. An environmental claim is defined in terms of a regulatory requirement or demand by a third party for damages arising from environmental contamination at the former Farrel Division facilities. The agreement requires the Company to notify USM of all claims for indemnification pursuant thereto within 10 years, or prior to May 12, 1996. In addition, the agreement provides for apportionment of claims by persons other than employees for events occurring both prior to and subsequent to the date of the Acquisition. Such apportionment is to be based upon a fair and equitable assessment of various factors, including the time of the occurrence and its magnitude and severity. Such assessment will be based upon an agreement between the parties or, in the absence of agreement, by a court of competent jurisdiction. A separate apportionment provision based on length of service for claims by employees is also included in the agreement.

In view of the terms of the Environmental Indemnification Agreement, including the ten-year time limit for making claims thereunder, as well as the results of an environmental study commissioned by a potential purchaser of real estate from the Company, which revealed contamination at that site, the Company retained HRP Associates, Inc. ("HRP"), environmental consultants, to investigate subsurface contamination at its facilities in Derby and Ansonia, Connecticut. HRP's investigation included the collection of soil samples, the installation of ground water monitoring wells, identification of underground storage tanks, inspection of transformers and capacitors, review of available files of the State of Connecticut Department of Environmental Protection (the "DEP"), interviewing of facility employees, research of historical background and a visual inspection of the properties. HRP's investigation found the existence of subsurface contamination at the Company's Ansonia and Derby properties, which findings were summarized in reports prepared by HRP. On the basis that HRP found evidence of historical spills and discharges, the Company transmitted several of the HRP reports to the DEP and the Region I Office of the United States Environmental Protection Agency (the "EPA") in 1989. To date, the Company has incurred costs of $250,000, exclusive of attorneys' fees, for environmental investigation and remediation voluntarily undertaken at Derby and Ansonia. At the Company's request, HRP has identified additional investigations and remedial work that may be required to comply with present laws and regulations. The nature and extent of such future remedial work could include: ground water monitoring, the removal and/or remediation (such as soil venting) of contaminated soil, the remediation of ground water and the removal of underground storage tanks.

Note 9—Commitments and Contingencies—(Continued)

In May 1989, the Company instituted a suit against USM, Emhart and certain affiliates, which was originally brought in Connecticut state court and is now pending in the United States District Court for the District of Connecticut at Hartford, with respect to the Company's Ansonia and Derby facilities. The complaint includes counts based on Superfund and other related counts as follows: a count alleging USM's noncompliance with the Connecticut Transfer Act (Conn. Gen. Stat. § 22a-134 *et seq.*) (the "Transfer Act") in conveying the Ansonia and Derby properties (the Company believes the required filing was not made for the Ansonia property and a filing which the Company believes may have been defective was made in respect of the Derby property); counts based upon fraud and misrepresentation based on USM's representations as to the environmental conditions at the Ansonia and Derby facilities; a contract count based on the Environmental Indemnification Agreement; a count based on the Connecticut Unfair Trade Practices Act (Conn. Gen. Stat. § 42-110b *et seq.*) alleging USM made misleading and fraudulent representations as to the environmental conditions at the Ansonia and Derby facilities; a count seeking reimbursement of costs expended by the Company to mitigate the effects of contamination at the Ansonia and Derby facilities pursuant to Conn. Gen. Stat. § 22a-452 and a count seeking the same relief pursuant to Conn. Gen. Stat. § 22a-451.

The Superfund counts, the Transfer Act count and the statutory cost recovery count under Conn. Gen. Stat. § 22a-452 are premised on strict liability and any relief under said counts would be independent of the Company's rights under the Environmental Indemnification Agreement. Under the Superfund statutes, the owner or operator of a site at the time hazardous substances are released to the environment is jointly and severally liable with the current owner and operator of the site for remediation costs which are consistent with the National Contingency Plan. In addition, the current owner or operator is entitled to seek contribution from the previous owner or operator for such remediation costs. Under Conn. Gen. Stat. § 22a-452, any person who mitigates contamination caused by the negligence or other actions of another party is entitled to reimbursement from such party of reasonable costs expended for such mitigation.

The relief sought in the suit against Emhart is the recovery of all expenditures for investigation and remediation and a declaratory judgment that USM and related defendants are liable for any required remediation in the future in connection with the sites located in Ansonia and Derby. To date, Emhart has generally denied the allegations in the Company's complaint and the parties are proceeding with discovery. The Company intends to prosecute the action vigorously. There is no assurance, however, that the Company will prevail in its suit against USM or that, if it should prevail, USM will be able to meet its obligations thereunder or that any such recovery from USM would cover all remediation costs incurred by the Company.

HRP has preliminarily advised the Company that, in its opinion, the initial capital cost (exclusive of ongoing monitoring and maintenance) related to further investigating and remediating known conditions identified to date at the Company's Ansonia and Derby properties, other than the Parking Lot (discussed below), would more likely than not be less than $2,000,000. HRP's cost estimate is based upon current information available to date, is subject to further remedial investigations and assumes that ground water remediation will not be required and that certain remedial techniques recommended by HRP, such as soil-gas venting, will be included in a remediation plan approved by governmental authorities.

Note 9—Commitments and Contingencies—(Continued)

The Parking Lot is a surfaced parking lot located in Ansonia that has been used solely for parking while owned by the Company. The Parking Lot site was formerly a reservoir which the Company believes was filled in during the late 1940's or early 1950's. HRP's testing conducted during its investigation revealed that soil beneath the Parking Lot contains metal contaminants, though not at levels that exceeded federal thresholds for hazardous waste contamination, and that there has been no evidence of significant ground water contamination beneath the Parking Lot. Although current DEP informal guidelines regarding the removal and disposal of contaminated soils would require removal of the contaminated soil beneath the Parking Lot, HRP has recommended that the Company seek appropriate governmental approvals to leave the contaminated soil in place, to install a permanent impermeable cap on the property complying with federal regulations under the Resource Conservation Recovery Act ("RCRA") and to conduct on-going monitoring of ground water. HRP's recommendation as to the appropriateness of pursuing this alternative is based upon the industrial/commercial nature of the site, the availability of public water to the property and the lack of any evidence at this time of a significant impact of the site on ground water quality. HRP estimates that the cost of designing, installing, and certifying the "RCRA" cap (exclusive of on-going monitoring and maintenance) to range from $1,300,000 to $2,000,000. Should removal and off-site disposal of contaminated soil be required, it is HRP's opinion that the disposal of the contaminated soil to a local landfill or an out-of-state secure landfill, or a combination thereof, would be more likely than not approved by governmental authorities. HRP's estimates of the costs of excavating, sampling, transporting and disposing of the contaminated soil to a local landfill would range from $5,000,000 to $8,000,000 and to an out-of-state secure landfill to be $8,000,000 to $10,000,000. However, should additional soil testing identify metal contaminants at hazardous levels, HRP estimates that the costs of removing, transporting and disposing of the contaminated soil to a hazardous waste facility to be $18,000,000. HRP's recommendations and cost estimates are based on current information regarding the site and are subject to further testings, input from regulatory agencies and confirmation of certain information such as soil weight and unit disposal costs.

The Company does not currently believe that costs to be incurred to comply with environmental laws and regulations relating to conditions at the Company's Connecticut facilities identified to date will have a material adverse effect on its financial condition. The Company's belief is based upon, among other things, (i) the advice of the Company's special environmental counsel, Murtha, Cullina, Richter and Pinney, concerning the status and the legal bases for environmental litigation with USM and Emhart; (ii) the Company's understanding of the underlying facts which give rise to its claims against USM; and (iii) technical advice received from HRP relating to the presence and/or nature and scope of subsurface contamination at the Ansonia and Derby properties and possible remediation options which could be required by the DEP and EPA with respect thereto. The cost of any actual remediation will depend on a plan of remediation approved by the appropriate governmental authorities in the future, and accordingly the precise costs thereof cannot be determined at this time. No assurance can be given, however, that the Company will not be required to incur significant costs with respect to conditions presently known to the Company, existing conditions not currently known by the Company or changes in existing regulations.

FARREL CORPORATION

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Note 9—Commitments and Contingencies—(Continued)

The Company is a complainant against a former licensee before the International Chamber of Commerce Court of Arbitration in connection with the continued use by the licensee of technology of the Company upon expiration of a license and trademark agreement. The Company seeks damages of not less than $12 million and punitive damages of not less than $2 million and treble damages where authorized. The Company is also seeking to enjoin the licensee from further use of its technology. The licensee has counterclaimed and requests damages of approximately $7.9 million alleging that the Company, while owned by USM, failed to make certain technical information available, damaged the licensee's commercial reputation and engaged in abuse of process by filing lawsuits against it. The Company has also filed a complaint with the U.S. International Trade Commission seeking to bar the licensee from importing certain products into the United States.

In January 1991, the Company was named as an additional defendant in a pending action, subsequently withdrawn, brought by more than 200 current and former employees of Cooper Tire & Rubber Company. The plaintiffs were seeking damages from the Company and 25 other defendants in the aggregate amount of $26 million. The action in the Circuit Court of Miller County, Arkansas, alleged that equipment manufactured by the Company and the other defendants caused personal injury from excessive noise. The Company answered the complaint, denying the allegations. The Company's insurance carrier assumed the defense of this action on behalf of the Company. The court granted the plaintiffs' motion to withdraw the action without prejudice, meaning that the plaintiffs could reassert their claim.

Management believes that the outcome of the foregoing proceedings will not have a material adverse effect on the financial condition of the Company based upon (i) the current status of the proceedings, (ii) liability insurance carried by the Company, (iii) certain indemnifications from USM and (iv) review of attorneys' letters with respect to such proceedings.